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EXECUTIVE SECRETARIAT

Routing Slip

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
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Date

Remarks:

Executive Secretary

1/28/83

Date

3637 (10-81)

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THE WHITE HOUSE
WASHINGTON

Executive Registry
83-0481

CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 1-24-83 NUMBER: 077744 CA DUE BY: _____

SUBJECT: Cabinet Council on Commerce and Trade - January 26, 1983
8:45 a.m. in the Roosevelt Room

	ACTION	FYI
ALL CABINET MEMBERS	☐	☐
Vice President	☑	☐
State	☑	☐
Treasury	☑	☐
Defense	☐	☑
Attorney General	☑	☐
Interior	☐	☑
Agriculture	☑	☐
Commerce	☑	☐
Labor	☑	☐
HHS	☐	☑
HUD	☐	☑
Transportation	☑	☐
Energy	☑	☐
Education	☐	☑
Counsellor	☑	☐
OMB	☐	☑
CIA	☐	☑
UN	☐	☑
USTR	☑	☐
CEA	☑	☐
CEQ	☐	☐
OSTP	☐	☐
_____	☐	☐
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	ACTION	FYI
Baker	☑	☐
Deaver	☐	☐
Clark	☐	☑
Darman *(For WH Staffing)*	☑	☐
Harper	☑	☐
Jenkins	☐	☑
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CCCT/Gunn	☑	☐
CCEA/Porter	☐	☐
CCFA/Boggs	☐	☐
CCHR/Carleson	☐	☐
CCLP/Uhlmann	☐	☐
CCMA/Bledsoe	☐	☐
CCNRE/Boggs	☐	☐

REMARKS: The Cabinet Council on Commerce and Trade will meet Wednesday, January 26, 1983 at 8:45 a.m. in the Roosevelt Room. The agenda and background papers are attached.

DCI
EXEC
REG

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☑ Becky Norton Dunlop
Director, Office of
Cabinet Affairs
456-2800

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THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON COMMERCE AND TRADE

January 26, 1983

8:45 a.m.

Roosevelt Room

AGENDA

1. Steel Trade (CM#096)
2. Labor - Management Dialogue (CM#342)

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CM # 096

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

21 JAN 1983

MEMORANDUM FOR Members of the Cabinet Council on Commerce and Trade

FROM: Malcolm Baldrige, Chairman Pro Tempore
Cabinet Council on Commerce and Trade

SUBJECT: Steel Trade Arrangements

ACTION FORCING EVENT:

Several countries subject to pending or prospective trade proceedings on steel have indicated interest in reaching quantitative steel trade arrangements similar to the recently negotiated settlement between the U.S. and the European Communities (EC). Before we respond to individual countries' requests, the Administration should decide as a matter of policy whether additional steel trade arrangements are desirable.

ANALYSIS:

Background

The EC Arrangements and Their Effects

The US-EC Arrangements were negotiated under unique circumstances. No antidumping or countervailing duty (AD/CVD) investigation had ever been settled in this way: through a U.S.-enforced quantitative restraint agreement that depended on the agreement of domestic steelmakers to withdraw unfair trade petitions and to commit not to file additional cases for the duration of the arrangements.

The EC was faced with antidumping and countervailing duties that would vary by country; those duties could have excluded some member states' producers from the U.S. market while leaving others free rein. The EC Commission feared that dramatically different effects on its member states would jeopardize the Commission's precarious control over the EC steel crisis (in many ways more serious than the crisis in the U.S. steel industry), threaten the common market for steel, and help undermine the basis of the Communities.

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The EC therefore pressed the U.S. for an arrangement allowing it to remain in control of EC steel trade, and to distribute cutbacks in steel exports to the U.S. according to EC political needs rather than according to the operation of our unfair trade laws. In response to EC pleas, and only after DOC and International Trade Commission preliminary determinations of dumping and/or subsidization and injury, the Administration judged that the political damage to the EC and to US-EC relations from imposing antidumping and countervailing duties warranted an extraordinary effort to reach an accommodation.

The Arrangements restrict EC exports of steel to specified shares of the U.S. market by product for three years. The EC administers the export ceilings by a system of export licensing, and the United States enforces the Arrangements by denying entry to the United States of unlicensed steel products. U.S. enforcement of the Arrangements was critical to both the U.S. and the EC: the U.S. industry has very little trust in the EC, and the EC wanted to protect itself against unlicensed merchant trading and transshipments.

The authority for U.S. enforcement comes from Section 626 of the Tariff Act of 1930, as amended, a narrowly-drawn statute enacted in October 1982 specifically to allow enforcement of steel trade arrangements entered into prior to December 31, 1982. With the expiration of 626 authority, and the lack of a viable alternative legal basis for enforcement, negotiation of further arrangements would be much more difficult.

Brazil charges that EC steelmakers now feel immune from antidumping complaints and have lowered their prices to fill their quotas in the face of a weak U.S. market. If U.S. producers find EC pricing practices a significant burden, U.S. firms can file antidumping complaints at the price of losing Arrangement protection in whole or part.

Because the Arrangement quantity restraints are based on market shares (with a reduction from historical levels), the expectation underlying the Arrangement is that EC steelmakers will not have to cut prices beyond normal commercial levels to fill quotas; any price-cutting now underway is due to the extremely weak demand in the U.S. market. We expect that EC prices will firm as the market begins a modest recovery and the Arrangement limits begin to bite. Indeed, across the business cycle the Arrangement will result in higher steel prices.

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Countries Possibly Interested in Steel Trade Arrangements

Brazil. In late December, Brazilian Finance Minister Galveas wrote several CCCT members requesting consultations as early as possible in January 1983 to explore the possibility of a quantitative arrangement that would protect Brazil from U.S. unfair trade laws. Brazil desires a quantitative arrangement because of fear of antidumping cases, a fear growing out of an overvalued cruzeiro and recent EC dumping findings on particular steel products. The Brazilian situation is discussed in Attachment A.

Japan. On December 16, the American Iron and Steel Institute filed a petition under Section 301 requesting relief (primarily in the form of import restrictions on Japanese steel) from damage allegedly caused by agreements between Japan and the EC. Japan may request an arrangement to avoid the unpleasantness and uncertainty of an investigation.

South Africa. DOC found only de minimis subsidies in several CVD cases on basic steel mill products involving South Africa, but domestic firms are challenging these findings in court. The litigation is expensive, may chill trade, and involves the sensitive (for South Africa) issue of whether apartheid constitutes a countervailable subsidy. In addition, in a pending CVD investigation of pipe and tube from South Africa we expect to find substantial subsidy to products manufactured from basic steel mill products. South Africa's immediate desire is to reach an agreement on pipe and tube, but it has also indicated some interest in an EC-type arrangement covering other steel products.

Spain. The International Trade Commission (ITC) recently made final affirmative injury determinations in seven cases involving carbon and specialty steel imports from Spain, and DOC has consequently issued CVD orders imposing additional tariffs of 2 to 38 percent to offset the injurious subsidies. While Spain originally expressed interest in an arrangement some time ago, the new Spanish government recently has indicated that it prefers to accept the imposition of countervailing duties.

Reasons For Additional Quantitative Arrangements

Trading partners may want quantitative steel trade arrangements:

- o To protect them from U.S. unfair trade laws;
- o To eliminate uncertainty, which can chill trade; and,
- o Some countries, fearing EC-type arrangements on a more global basis, may want to get first crack, in the hope of negotiating less stringent restraints and securing special provisions.

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Reasons Against Additional Quantitative Arrangements

If we agree to negotiate a steel trade arrangement with any country beyond the EC, it will become increasingly difficult to turn away others seeking arrangements on steel--and perhaps for other products as well.

Proliferating steel trade arrangements, by signaling that we will substitute politically-determined quotas for the statutory remedies for unfair trade, would significantly weaken the United States free and fair trade policy position:

- o It would weaken the USG's position against other U.S. industries seeking similar protection;
- o It would weaken our stance against other governments that might use the arrangements as an excuse to erect or strengthen their own import barriers;
- o It would weaken our ability to channel trade complaints into the statutory framework of our trade laws and would contribute to greater politicization of trade complaints.
- o U.S. enforcement would probably be required in any arrangement; such enforcement would require either a significant and precedential deviation from existing policy under our trade laws (if it would be legal at all), or a risky return to Congress for authority to negotiate and enforce arrangements.

Broader barriers to steel imports may raise prices and restrict supplies to domestic steel consuming industries. Negotiated quantitative restraints outside of cases are likely to be particularly damaging in this regard because, to secure withdrawal of petitions by the domestic industry, some fairly traded steel would likely be restrained (e.g. German and Dutch steel, and pipe and tube, in the EC Arrangements).

Broader import protection outside findings of unfair trade practices will diminish the incentive for modernization and adjustment by the U.S. steel industry.

Recommendation

Refuse to negotiate further EC-style extra-statutory steel trade arrangements. Any negotiations to settle the Japanese 301 case by restraining steel exports to the United States will not be undertaken until after a clear finding of unfair trade practices which would withstand challenge in the GATT, and pursuant to the established interagency process.

Continue to make suspension agreements available to respondents in AD/CVD cases within the statute.

Pursue specialty steel Section 201 and 301 cases as previously decided by the President.

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Attachment: Brazil's Desire for a Steel Trade Arrangement

The Brazilian Position

Brazil claims that a U.S.-Brazil quantitative steel trade arrangement is appropriate because the EC steel arrangements place Brazil in a difficult position. Brazil argues that the EC is able to sell subsidized steel in the U.S. market at unrestrained prices, as U.S. steel producers have undertaken not to file antidumping petitions against them. Brazil, whose steel subsidies are offset by an export tax, must lower its prices to compete with the EC for U.S. sales. With its overvalued cruzeiro and the weak U.S. market, Brazil fears that doing so will increase Brazil's vulnerability to U.S. antidumping laws. Brazil feels that the EC has gained a preferential position in the U.S. market.

During the President's visit to Brasilia in early December, USTR and Brazil reached an ad referendum agreement including the statement that, "efforts will be made to resolve outstanding issues relating to Brazilian footwear and Brazilian steel on a fair and equitable basis." Finance Minister Galveas has since requested negotiations seeking a quantitative steel arrangement.

Background

Two steel CVD cases are pending against Brazil, and three other Brazilian steel CVD cases have been the subject of statutory suspension agreements under which Brazil imposed export taxes to offset the subsidies found by DOC. One AD case has been filed against a product for which a CVD suspension agreement is in place (wire rod), and there is a possibility of additional dumping cases.

Brazil's serious debt problem and U.S. and international efforts, including an IMF agreement, to resolve it will require Brazil to increase its exports, including steel if possible. In 1981, U.S. imports of steel from Brazil of $235 million accounted for 5.4 percent of total U.S. imports from Brazil, and about 1 percent of total Brazilian exports. In the first 10 months of 1982, the United States imported $209 million of steel products from Brazil, accounting for 6.2 percent of total U.S. imports from Brazil.

Analysis

The impact of any unrestrained EC pricing in the U.S. on Brazilian producers should not be overestimated. The EC accounts for only about 6 percent of the U.S. steel market, and its impact on U.S. price levels is far less important than the level of domestic demand. Prices of U.S. producers are the greatest factors in setting prices in the United States, if only because U.S. producers still account for 80 percent of the market. In addition, the quantitative limits on the EC are sufficiently stringent that as the

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U.S. market improves (the forecast used for setting quantities in the EC arrangement shows the U.S. market increasing by 18 percent in 1983 over 1982), EC prices should firm as EC producers revenue-maximize rather than merely try to fill their quota. Finally, the threat of provoking AD cases and destroying the Arrangement by unrestrained price-cutting is some deterrent to EC exporters.

In the U.S. market, the EC arrangements only marginally affect the degree of Brazilian sales at less than fair value. The overwhelming causes of less than fair value sales (if they are in fact occurring) are the overvalued cruzeiro and protection of the Brazilian steel market, which may keep Brazilian steel prices high. Since Brazil's last maxi-devaluation in December 1979, the cruzeiro has become overvalued by an estimated 30 percent against the dollar. Brazil is now devaluing the cruzeiro monthly at the rate of domestic inflation plus one percentage point. The government has firmly stated that there will be no maxi-devaluation this year, and it is believed that Brazil will hasten its mini-devaluations rather than effect a maxi-devaluation.

In any event, it is by no means certain that a quantitative restraint agreement is in Brazil's interest, for several reasons. First, until at least one antidumping case is completed, we cannot know whether Brazil is selling steel at less than fair value. Preliminary results in the pending antidumping case against Brazilian steel wire rod (covering 20 percent of U.S. steel imports from Brazil through November 1982 by volume) will not be reached until March 9.

Second, if the cruzeiro nears its equilibrium level and/or U.S. steel prices firm before any dumping order is issued (9 to 13 months after the filing of a petition), any Brazilian dumping cases could be resolved through statutory suspension agreements in which Brazil would agree to end less than fair value sales. Third, if a quantitative restraint lasts into a period in which the cruzeiro has returned to equilibrium, the quantitative restraint may prevent Brazil from fairly expanding its steel exports and earning needed foreign exchange.

Fourth, even if Brazil is selling at less than fair value, unfair trade is not proven until the ITC finds injury to the U.S. industry. Injury from less than fair value sales of plate (which has been Brazil's largest steel export to the United States) may be difficult to show because imports in 1982 to date are down 46 percent from last year. Injury on any product is difficult to show if the Brazilians are simply meeting the U.S. producers' prices. Negotiation of a quantitative arrangement, if the USG decides to do so, could wait until a better understanding of the state of trade is developed through investigation, as was done with the EC.

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Fifth, to secure the necessary assent of domestic steelmakers to an arrangement (there is no other way to assure Brazil protection from antidumping petitions) steel products not now exported to the United States in quantity would probably have to be restrained in addition to those now exported (plate, wire rod, pipe and tube). In the absence of an arrangement Brazil could (and in recent months has begun to) increase exports of steel products not previously exported (e.g., sheet products), with little chance of an affirmative ITC injury determination due to the small quantities involved. In fact, the ITC found no injury or threat of injury from imports of five steel products, including sheet, in 1981.

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CM# 342

LABOR-MANAGEMENT DIALOGUE

Issue

The National Productivity Advisory Committee (NPAC) has recommended that the Administration take actions to promote and improve the climate for labor-management cooperation. The Committee specifically recommended that the Government should, as a matter of policy, assist as a catalyst in the development of continuing labor-management cooperative efforts. What actions, if any, the Administration should take to achieve this goal are at issue.

Objectives

If the American economy is to compete effectively on a world-wide basis, many American industries will have to take a number of steps to reduce costs, improve quality, and maintain or achieve technological leadership. In a number of industries, progress toward achieving these goals can best be made with the active support or, at a minimum, the concurrence of the unions representing their workers.

Some of the questions that need to be addressed in this regard are:

- What public and private measures need to be taken to protect workers made redundant by the introduction of new technology or by the relocation of plants to other areas?
- What changes in the behavior of labor and management officials would be conducive to a greater identification of workers with long-term success of their enterprise?
- Are there opportunities in today's labor-management relationships to reduce the adversarial nature of the collective bargaining process?

The relationship between employers and unions is, of course, a primary responsibility of the parties themselves. The political forces that work within the unions and to a lesser degree within companies, however, are such that an "encouraging" Government involvement could perform an important catalytic function.

Up to now the Administration has not played a major role in encouraging greater labor-management cooperation. The NPAC recommendation provides an opportunity for us to launch an initiative in that regard. The issue then is whether the Administration wishes to assert its influence in this area and, if so, what actions should be taken to carry out its mission.

The fundamental question, of course, is whether the Government indeed can play a useful role in increasing labor-management

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cooperation in the private sector or whether the parties themselves can best deal with this problem without interference.

One way to find out is to ask a group of business and labor leaders to look at the issues and make recommendations; first, as to whether there are steps the parties can take to improve our economy's competitiveness and second, as to whether they believe a more active Government role would improve business/labor collaboration.

It would be made clear that we are not suggesting that Government play a role in the collective bargaining process as it affects wages, benefits or conditions of work.

Recommendation

The President (alternatively the chair of the CCCT) would apppoint a distinguished person outside the Administration, who enjoys the confidence of both labor and management, to form a high level panel made up of business and labor leaders. This panel would be asked to: reach agreement on the types of issues most susceptible to joint labor-management resolution, including those dealing with relationships between the parties themselves as well as one in which Government can play a part; make recommendations to the business and labor communities as to how they might work together on these issues to achieve higher national productivity and worker satisfaction; and make recommendations to the Government regarding ways in which public policy might contribute to solving problems of mutual concern to the parties.

Since, from the Administration's standpoint, the crux of the exercise would be for the panel to suggest to the Administration how Government can assist business and labor in dealing with their mutual problems, the panel would be established with the understanding that only its consensus recommendations would be forwarded to the Administration.

Pros

- The Administration would be responding positively to a major recommendation of NPAC dealing with an important public concern.
- By asking leaders of labor and management to provide their judgments on this matter, the Administration would be honoring its longstanding policy of encouraging active involvement of private sector leaders in the resolution of major problems facing the country.
- By appointing only a distinguished person to assemble a labor-management panel, and, obviously, in the

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process to explore the workability of such an arrangement, the Administration distances itself from the project should prospects for success appear slim or should labor or management reject the invitation to participate.

- Although the AFL-CIO refused to participate in the National Productivity Advisory Committee, there is reason to believe the AFL-CIO might accept membership in a high level forum to discuss labor-management cooperation.

Cons

- Consensus recommendations made by leaders of big business and big labor might be inconsistent with Administration philosophy or objectives.

Taking the pros and cons into account, it is recommended that the Administration proceed with the first step, the selection and appointment of a distinguished person in the field of labor-management relations charged with the responsibility for establishing the panel.

1/5/83

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